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~~SECRET~~**Current Situation**~~SECRET~~

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CAMBODIA: [The government's inability to reopen Route 4 has raised the threat of a serious fuel shortage in Phnom Penh.]

[Since 20 November, Communist forces have remained solidly entrenched at the Pich Nil pass, overlooking the strategic southwestern highway. In the meantime, enemy harassing attacks against the town of Sre Khlong, near the rear base camp for the government troops assigned to retake the pass, have completely stalled a Cambodian counteroffensive.]

[A major effect of the closure of Route 4 has been the disruption of the flow of petroleum supplies from the coastal refinery at Kompong Som to Phnom Penh. According to the US Embassy, stocks of gasoline and kerosene for both military and civilian use are expected to run out in mid-December. The Cambodians have asked the South Vietnamese for emergency assistance in supplying the capital with POL by truck convoy over Route 1 and via shipments up the Mekong River, and Saigon reportedly is willing to do all it can to facilitate such transportation. Nevertheless, it may already be too late to prevent temporary restrictions on civilian POL use.]

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POLAND - WEST GERMANY: The two governments have formally agreed to expand contacts in various fields before the establishment of diplomatic relations.

During Chancellor Brandt's visit to Warsaw to sign the good will treaty, ranking Polish officials held a number of closed meetings with members of Brandt's party concerning economic cooperation and closer ties in the areas of culture, youth, public media, and the trade unions. The groundwork for such cooperation was laid earlier this year during the treaty negotiations, when both sides agreed that further steps would take place after signing of the accord.

Both governments realize that, because of Bonn's decision to link Ostpolitik as a whole with a satisfactory Berlin settlement, ratification of the treaty and consequent establishment of diplomatic ties may not come soon. They believe that these should not be a precondition for normalizing their relations. Moreover, Polish leaders reportedly have indicated that they believe the Soviet - West German treaty might have to be ratified before their own. For the time being, the trade missions of the two countries, whose functions will soon be expanded, are likely to be used as de facto diplomatic establishments.

The Poles evidently hope that an expansion of mutual trade on the basis of the 1970-74 trade agreement concluded in October will be among the first results of the improved channels of communication. According to Brandt, the first meeting of the newly created mixed bilateral economic commission will take place in January. Closer trade union contacts are likely to follow, with the Polish trade union chief, Loga-Sowinski, a ranking party politburo member, reportedly slated to visit West Germany in April.

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FINLAND: President Kekkonen's proposals for extending the national economic stabilization agreement have been adopted, but over Communist objections.

Negotiations between labor and management had been stalled throughout the fall because of maneuvering within the central labor federation between liberal and conservative Communists. After extended bargaining the liberal wing and the Social Democrats agreed to a common set of wage demands, but these were rejected by management as inflationary. Fearing a wave of strikes if a new agreement was not devised by the end of the year, Kekkonen intervened late last month and imposed a compromise settlement, hoping that by taking on himself the onus for its unpopular terms, he could win the support of all parties, particularly the liberal Communists.

The latter, alarmed by the positive response among the labor rank-and-file to the consistently extreme demands of the conservatives, hardened their stand, however, to try to recover support lost to the conservative wing and to undercut the position of the Social Democrats. Each faction in the labor movement is seeking to strengthen its position before the trade union federation congress next June when the results of nearly a decade of effort aimed at reunifying the splintered movement are confirmed.

The real test of Communist strength, however, will come in the next two weeks when individual unions take their stand on the central federation's decision to accept Kekkonen's proposal. If their approval is delayed beyond the first of the year, the way will be open to Communist-led strikes and other pressure to gain greater wage concessions than those in the proposal. The stabilization agreement could also be blocked in Parliament by the Communists, but as this would be tantamount to their withdrawal from the government, they will not resort to such a move at the outset.

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HUNGARY-VATICAN: The Vatican and the Kadar regime are close to agreement on easing problems causing friction in church-state relations, but it is unlikely that any fundamental issues will be resolved.

Archbishop Casaroli, the Vatican representative in talks which began in early October, told Ambassador Lodge on Monday that press reports on an imminent agreement are "substantially true." He gave no specific details, however, on the nature of the agreement and denied other press speculation that proposals were made for replacing Cardinal Mindszenty in his Esztergom diocese or establishing quasi-diplomatic relations between Budapest and the Holy See.

The archbishop's other comments suggest that the "deepening of relations," being touted in the press, will be limited to an extension of the 1964 agreement on regularizing church-state relations. Casaroli's expressed desire to get the regime to concede its veto power in the appointment of parish priests and heads of seminaries is an optimal goal with little chance of success. Budapest is not likely to make such major concessions for what it sees as largely a matter of good public relations. It may, however, offer to be more flexible in agreeing to nominations by the Hungarian bishops.

Resolution of other problems surfaced in these talks could also improve the working relationship between church and state in Hungary. The regime is interested in getting the Vatican to rescind excommunication of priests who have cooperated with the regime and may offer in return to agree to the filling of vacant bishoprics and easing some of the more onerous restrictions on parish religious activities.

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HONDURAS: [President Lopez has called for a national unity government in which the country's two major parties would share power.]

[Leaders of the opposition Liberal Party were summoned to the presidential palace Tuesday evening to hear Lopez' proposal, which had already won the approval of key labor, business, and Nationalist Party leaders. Under the plan there would be a single, as yet unnamed, unity candidate for president. The two parties would share executive and judicial posts and split the congressional seats.]

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[Lopez will probably seek to nominate one of his cronies for president and retain control from behind the scenes by utilizing his military power base. Lopez, however, considers himself too young--he is 49--to retire and there have been a number of indications over the past months that he desires to extend his term of office past June. He might therefore wait until the opposition had agreed to his plan and then, pointing to the lack of success in finding a suitable nominee, declare himself the unity candidate.]

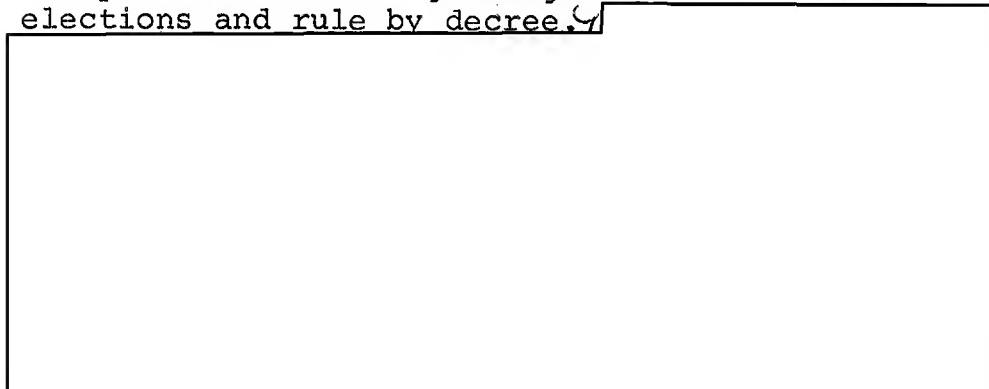
[The President has already condemned the "old sad system of partisan political battles" and has

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warned that if the parties do not accept his proposal they will bear "historic responsibility." If the Liberals reject what on its face appears to be a generous political offer, Lopez may believe that his position is strong enough to cancel the March elections and rule by decree.¹

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NOTES

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[Redacted]
WEST GERMANY - CZECHOSLOVAKIA - USSR: Bonn and Prague will sign a long-term trade and economic cooperation agreement on 17 December. This will complete Bonn's effort during the past year to reach or renew such agreements with all the countries of Eastern Europe except Albania. Apparently on the basis of this accomplishment, Economics Minister Schiller has reaffirmed that Bonn is interested in principle in a new trade agreement with the USSR to replace the one that expired in 1963. Although trade between the two partners has continued to grow in the absence of a formal agreement, a new pact could foster even further growth of trade.
[Redacted]

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YUGOSLAVIA-ITALY: President Tito's official visit to Italy, which was slated to begin today, has been postponed. Yesterday's announcement from Belgrade stated only that the decision was made in the "interest of good relations" and expressed the hope of both governments that the trip would be rescheduled soon.
[Redacted]

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ARMS CONTROL: [The UN General Assembly's overwhelming endorsement of the US-USSR draft treaty limiting military utilization of the seabeds will permit it to be opened for signature in the near future. Little difficulty is anticipated in securing its rapid entry into force. The only probable holdouts are France and Communist China, which traditionally decline to adhere to such disarmament measures, and a few Latin American states that view the treaty as impinging on their claim to 200-mile territorial waters. With the seabeds treaty out of the way, the Geneva disarmament conferees will focus on the problem of chemical and biological warfare during their 1971 sessions.]

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SYRIA - SAUDI ARABIA: Recent encouraging statements from the new regime in Damascus have raised some hopes for talks to discuss the repair and re-opening of the Trans-Arabian Pipeline (Tapline), which has been closed since 3 May. Oil company officials are mildly optimistic that a "courtesy call" today on Syrian leaders may lead to fruitful negotiations. A Saudi Arabian change of heart has also added to the current optimism; the Saudis reportedly have removed one obstacle to progress by relaxing their ban on negotiations prior to the line's re-opening.

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BRAZIL: The government has asked for--and has received--the names of the 70 prisoners the terrorists want released in return for the freedom of the Swiss ambassador.

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[redacted] The government's request for still another letter from the ambassador, however, seems to be a ploy to give security forces more time to locate him and his abductors before being forced to release prisoners.

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